

VZCZCXRO2509
PP RUEHLMC
DE RUEHTG #0336/01 0512155
ZNY CCCCC ZZH
P 202155Z FEB 07
FM AMEMBASSY TEGUCIGALPA
TO RUEHC/SECSTATE WASHDC PRIORITY 5009
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHCV/AMEMBASSY CARACAS PRIORITY 0541
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0593

C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 000336

SIPDIS

NOFORN
SIPDIS

STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, EB/CBA, AND WHA/CEN
STATE FOR D, E, P, AND WHA
STATE FOR S/ES-O MMILLER AND MSANDELANDS
TREASURY FOR AFAIBISHENKO
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK
COMMERCE FOR MSELIGMAN AND WBASTIAN
STATE PASS USTR FOR AMALITO

E.O. 12958: DECL: 02/20/2017

TAGS: [EPET](#) [ENRG](#) [PREL](#) [BBSR](#) [NI](#) [VE](#) [HO](#)

SUBJECT: HONDURAN PRESIDENT ATTACKS PRO-NATIONALIZATION
FUEL COALITION; DENOUNCES CONOCO CONTRACT

REF: A) TEGU 302 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b,d)

11. (C/NF) Summary: Recently President Zelaya has become openly critical of his former allies, the Patriotic Coalition (the group led by Juliette Handal that seeks lower fuel prices through nationalization of all imports). Zelaya has also criticized the pressure tactics employed by ConocoPhillips in presenting the GOH with a signed sole-source contract making Conoco the monopoly fuel supplier to Honduras. Zelaya also implicitly criticized the U.S. citizen consultant responsible for the fuel import nationalization plan and the Conoco contract. With these statements, Zelaya has for the first time distanced himself from Juliette Handal and the coalition she heads, and has strengthened his building case for ultimately rejecting her proposal to nationalize imports. Post's most significant doubt about the outcome of the struggle to prevent that nationalization had been precisely whether Zelaya would be willing to confront Handal. It appears Zelaya has now done so, preparing his exit from the fuel imports controversy that for over a year has both buoyed his popularity with the poor and threatened to poison his relations with investors. There is no final deal yet between the GOH and Texaco and Shell, but according to the GOH one is in the offing, perhaps as soon as February 21. End Summary.

12. (SBU) Over the last several days, President Jose Manuel "Mel" Zelaya Rosales has become increasingly critical in his public remarks of the Patriotic Coalition (the group led by Juliette Handal that seeks lower fuel prices through nationalization of all imports.) Since January 18, Zelaya has been moving steadily towards a decision to abandon the fuel import solicitation plan in favor of liberalizing the fuels market in Honduras. Because such a move always implied Zelaya would need to confront the popular but disruptive Handal and the Patriotic Coalition, Post had doubts about whether Zelaya would follow through. This week, Zelaya clearly stood up to Handal, openly taking on the Coalition and reinforcing in even more explicit terms that no new

savings would be forthcoming even if the GOH were to conclude the fuel import solicitation.

13. (SBU) In public remarks on February 14, Zelaya said, "There will be no more price reductions, or rather, they have already happened, specifically because I issued an executive decree in the Council of Ministers, before any bid came as part of the bid solicitation. I reformed the fuels pricing formula. There will be no further price cuts or other benefits, whether the Conoco bid comes or not." (Note: U.S. firm ConocoPhillips won the GOH bid solicitation to provide all Honduras' fuel imports for the next year, but has not yet concluded a contract with the GOH. Had the GOH determined to move forward with the nationalization of the sector, Conoco would have been contracted as the monopoly supplier to the GOH, closing the market to current importers Esso, Texaco, and Shell. End note.)

14. (C/NF) In a letter to President Zelaya on February 12 and in subsequent public remarks, Handal and others from the Patriotic Coalition pushed back, saying that anyone who opposes the nationalization plan "is working against the national interest." Her strident tone and the implication that the President himself is working against the national interest reportedly provoked Zelaya to anger, and may have hardened his stance in favor of liberalization. (Comment: It was perhaps inevitable that Zelaya would have to confront Handal, a firebrand who has caused Zelaya no end of troubles over the last year. As long as Zelaya sought to pressure the international oil companies, Handal's zealotry was useful to him. Now that he is preparing to change course, she has become both an ally and a potential political rival. End Comment.)

TEGUCIGALPA 00000336 002 OF 003

15. (SBU) Zelaya also implicitly criticized the U.S. citizen consultant advising the Patriotic Coalition and the GOH on the fuel import solicitation. In private remarks to EconChief, Minister Enrique Flores Lanza said the consultant had encouraged Conoco to submit a signed, revised draft contract to the GOH, to pressure them to conclude the nationalization scheme and agree to make Conoco the sole importer. (In his public remarks Flores Lanza has been much more circumspect.) News of the signed contract leaked to the press on February 15. Zelaya responded sharply, criticizing the new contract as "unilateral, incorrect, and a straightjacket" for Honduras. Zelaya went on to say, "I don't want to judge anyone, but I did not like what happened (with the contract). It seems to me that was not done using appropriate business sense and that they have gone too far with these kinds of arrangements, which have not been approved either by those overseeing the process or by the government. It is incorrect that they have unilaterally sent me a signed contract in which they have altered ten important clauses without having first consulted the government. In a process of negotiation, you don't send a signed contract; you send an unsigned one for analysis." Zelaya then said he would question the U.S. citizen consultant about "what's really going on here." Asked on February 16 about the consultant, Flores Lanza remarked to the press that, "If one loses confidence in a consultant, well, quite simply, that relationship must be ended."

16. (C/NF) Comment: Whatever his flaws, Zelaya is a gifted retail politician, one who chooses his battles carefully and only ones he feels he can win. That he has taken on the Patriotic Coalition and Juliette Handal frontally signals that he is perhaps prepared to end this debate once and for all, and remove that group as a potential threat to his popularity and stability as President. Flores Lanza has made several statements explicitly impugning the U.S. consultant (a close friend and supporter of Handal), and several media outlets from all parties have joined in the attack on the bid solicitation process (noting, for example, that following through with nationalization would create legal problems and

not create additional savings, so why do it?). It seems clear to Post that this is a coordinated attack on Handal and her supporters. To his credit, Zelaya realized (albeit only after more than a year of pressure from Post and the private sector) that his populist fuel import scheme would not work, and he has repeatedly assured Ambassador that he has changed course dramatically and embraced market liberalization. Handal lacks the intellectual integrity to admit her plan does not work, and the political smarts to change course with her President. Her tenacious and ultimately self-destructive refusal to let go of this misguided scheme has put her in conflict with Zelaya, a conflict he will likely win.

¶7. (C/NF) Comment, continued: Having come out even more forcefully against the nationalization option, Zelaya seems to us now to be even more committed to a strategy of market liberalization. There is no deal yet in hand with Texco and Shell, but according to the GOH one is in the offing, perhaps as soon as February 21. Shell has reportedly come to terms with the GOH, while Texaco sent a senior-level delegation on February 19 to discuss next steps and could potentially close the deal in the next few days. Esso remains reluctant and will have to engage the GOH at some point, when and if it feels comfortable doing so. DIPPSA/Trafigura remains a wild card, as it faces several pending lawsuits (over storage tanks and over allegations of selling at inflated prices to its distributors) and could itself launch a series of lawsuits at the GOH for the losses it is suffering under the new pricing scheme. Nevertheless, DIPPSA/Trafigura could be one of the best positioned to benefit from a market liberalization. An uncharacteristically ebullient Flores Lana told Ambassador on February 15 that he felt all parties were on the verge of closing a deal and finally ending this

TEGUCIGALP 00000336 003 OF 003

year-long saga. Post will continue to track developments with interest.

Ford
FORD